



News Release

Media Relations Office

Washington, D.C.

Tel. 202.622.4000

For Release: 2/22/02

Release No: IR-2002-22

**TAX SHELTER DISCLOSURE INITIATIVE REACHES MID-POINT;
IRS ADDS NEW PROTECTION ON PRIVILEGES**

WASHINGTON - Midway through the 120-day window of opportunity for people to disclose tax shelter transactions, the Internal Revenue Service has taken new steps to protect the right for taxpayers to assert attorney-client and work-product privileges when they voluntarily disclose tax shelter transactions.

"Some taxpayers have indicated that they want to make a disclosure, but they are concerned that the production of certain documents and opinions may be a waiver of the attorney-client and work-product privileges. The IRS has developed an agreement to address this concern," said Larry Langdon, Commissioner, Large and Mid-Size Business Division.

On Dec. 21, 2001, the IRS started the 120-day "window of opportunity" for taxpayers to voluntarily come forward and disclose tax shelters and other questionable items reported on their tax return.

The IRS said 21 taxpayers have disclosed losses under an initiative aimed at encouraging taxpayers to disclose tax shelters. Halfway into the disclosure initiative, these taxpayers have disclosed more than \$1 billion in claimed losses.

The disclosure initiative is part of the effort by the IRS and the Treasury Department to identify and shut down tax shelter activity. The IRS is taking this step because information obtained through disclosures helps the IRS more readily identify tax shelter promoters who have not registered and find other taxpayers who have not disclosed their participation in a tax shelter.

The IRS hopes to encourage taxpayers to disclose tax shelters and other questionable items that may have resulted in an underpayment of tax by waiving certain accuracy-related penalties that might apply to the transactions. A taxpayer is not required to agree that the disclosed tax shelter or item resulted in an underpayment of taxes in order to avoid penalties.

Taxpayers who make disclosures must, among other things, describe the material facts of the transaction, provide the names and addresses of the promoters who solicited the taxpayers' participation, provide upon request copies of materials and documents related to the transaction or item and sign a penalties of perjury statement regarding the accuracy of the information provided. The IRS will waive the accuracy-related penalty for underpayment of taxes attributable to one or more of the following: (1) negligence; (2) substantial understatement of income tax; (3) certain substantial valuation misstatements; or (4) substantial overstatement of pension liabilities.

The disclosure initiative will not apply to taxpayers involved in fraud, criminal conduct, the

-more-

concealment of a foreign financial account or foreign trust, or the treatment of personal expenses as deductible business expenses.

The IRS encourages taxpayers who have reported questionable items on their tax returns to come forward. Disclosure creates no inference that the taxpayer's tax treatment of the item was improper or that the accuracy-related penalty would apply.

To make a disclosure, taxpayers should submit the disclosure information to their assigned IRS Team Manager or, if not under Examination, submit the information to:

IRS Office of Tax Shelter Analysis
LM:PFTG:OTSA
1111 Constitution Ave, NW
Washington, DC 20224.

Details of this are contained in IRS Announcement 2002-2. A copy is available at the IRS Web site at www.irs.gov. For more information, call the IRS Office of Tax Shelter Analysis at (202) 283-8425.

X X X